



Western States Petroleum Association
Credible Solutions • Responsive Service • Since 1907

Catherine H. Reheis-Boyd
President

February 7, 2012

California Energy Commission
Dockets Office, MS-4
Re: Docket No. 11-IEP-1A
1516 Ninth St.
Sacramento, CA 95814-5512
Via electronic mail to docket@energy.ca.gov

Re: **Western States Petroleum Association's Comments on Final 2011 IEPR**
Docket No. 11-IEP-1A

The Western States Petroleum Association (WSPA) submits comments below on the final 2011 IEPR document. WSPA is a non-profit trade association representing twenty-six companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas, and other energy supplies in California and five other western states. We have provided comments both orally and in writing throughout the 2011 IEPR process.

Ensuring that adequate, reliable and affordable transportation fuels will be available and the vehicles to match them will be available, is extremely important to the state. Refiners face increasing challenges in California as they work to comply with various significant regulations proposed by the California Air Resources Board (CARB). The regulations that will impact the refining industry include:

- Cap & Trade of CO₂ allowances
- Fuel Under the Cap (2015)
- Low Carbon Fuel Standard (LCFS)
- Clean Fuels Outlet (CFO)

In addition, the refiners face complying with the federal Renewable Fuels Standard Part 2 program requirements, as well as a myriad of other federal, state and local regulations.

The Commission can and should play an active role in understanding, informing and if possible, addressing the many challenges confronting the refiners and providers of transportation fuels in California as the state moves forward with its multiple low-carbon policies. The Commission is

uniquely qualified to provide comprehensive, accurate, and thorough data analysis of the transportation fuels markets and offer proactive policy recommendations.

The Commission should understand and inform state policy makers on the impact of these regulations on the refining industry including: 1) capital investment requirements, 2) increase in operating costs, 3) potential changes in crude slates, 4) potential capacity rationalization, 5) potential implications for job loss, 6) impact on state tax revenues, and 7) potential for impact on the costs of transportation fuels.

Proposed Final IEPR is Non-Responsive to Industry Comments

As stated in our December 22nd set of comments on the draft IEPR (attached), WSPA was encouraged last year when Commission staff, as part of their biennial review of issues related to transportation fuels and vehicles as input to the IEPR, began to provide comprehensive and realistic data and information regarding historical as well as projected future transportation fuels and vehicles. This type of information and the level of detail of the information were far superior to what had been released for prior IEPRs. The staff analysis comprised not only the normal transportation fuels/vehicles data, but also began to examine the potential issues and impacts related to the federal RFS2 program as well as the California Air Resources Board's LCFS program.

WSPA does not find the final IEPR to be responsive to our December 22nd comments, nor to WSPA's comments made during the many workshops and written submittals in 2011. The final version of the IEPR seems to incorporate only a few select pieces of the detailed information referenced above. In addition, there is a long list of uncertainties and challenges presented in the final IEPR relative to the transportation sector, but disappointingly, no substantive information that attempts to address these uncertainties or recommend actions on specific strategies to overcome them.

Critical Data Not Yet Released to the Public

In particular we do not see the inclusion of sufficient information from the multiple CEC Transportation Fuels-related workshops. There seems to have been a problem surrounding the release of the entire package of staff documentation relative to work done for the transportation fuels portions of the IEPR – especially relative to the LCFS - despite public requests in December for additional workshops and information addressing this.

The Commission should avoid statements like those made at the December ARB Board hearing where a Commission staff manager indicated there had been unidentified parties using selective quotations of staff work on one of several cases and studies without context or qualifications. Obviously, since only select information (two out of at least four cases) had been released by staff during the November 14 workshop, the public could only quote what had been provided.

The Commission has still not released the final fuels and transportation sector report, along with all of the background data and assumptions. WSPA requests that this information be released for public review and comment before the final CEC IEPR is adopted. Surely that would be the appropriate process to ensure transparency in the process.

Commission Should Revise its IEPR Analysis of Transportation Fuels

Included in WSPA's draft IEPR comments were three "asks" that we would like to once again highlight and ask for the Commission's acceptance of:

- "The Commission should conduct annual, versus biennial reviews of transportation fuels as input to the IEPR since this is a segment of the energy market that should be provided equal focus and analysis as the electricity sector – especially with the evolution currently occurring in the transportation sector. Many of the issues in the electricity sector are identical or similar to the transportation fuels sector. As electricity fuel use and electric vehicle penetration increase in the state, there will be cross-over issues at play with transportation fuels and an annual review would assist in addressing them."

WSPA wants to know why the transportation fuels work in the Commission cannot be performed annually just as is done for the electricity sector, for example? Does the Commission consider transportation fuels energy security not as important as electric energy security? We noticed the final IEPR now includes mention of "peak oil" and the need to assess the status of this issue soon, so we assume the Commission has sufficient concern relative to the petroleum portion of the fuels sector, so we do not understand the reluctance to include transportation fuels in the annual IEPR reviews.

- "In aide of the CARB's LCFS reviews, the Commission should provide to the ARB, at a minimum on a quarterly basis, information on transportation fuels including supply, demand and cost information for conventional fuels as well as projections; supply, demand and cost information for alternative/low carbon intensive fuels as well as projections; availability and projections of alternatively fueled vehicles and the match up or not with the fuels; as well as information relating to infrastructure or other challenges that are developing in the system."

WSPA sees several general references to working together with the ARB and other state agencies, but we do not see specific commitments and timelines. We ask the Commission to develop specific timelines for moving forward with the work and analysis referred to in the IEPR that is needed for the transportation sector. We also ask the Commission to commit to information-sharing with the ARB on a regular basis. WSPA asks that these items be included in the IEPR prior to its final adoption.

- "That statements in the IEPR summarizing general observations or dilemmas about possible future outcomes without a dose of realism based on history and informed insight does not enhance the state's energy reliability and security goals. There is a tendency for the IEPR to simply state additional work is needed to assess projections, etc. But no date certain is provided for when results of these additional studies will be forthcoming. This is not acceptable and puts at risk the state's fuels system since reporting "after the fact" will not be timely enough. A clear understanding with appropriate recommendations for how to avoid issues/problems is required and expected from the Commission. We ask the Commission to include in the IEPR specific dates by which certain studies and results will be accomplished."

In addition to the request above on specific commitments and timelines, WSPA finds the IEPR ineffectual at addressing the transportation fuels arena in terms of identifying the transportation issues and then providing recommended strategies to address the issues. There is merely mention of a small number of the potential challenges and opportunities, and a commitment to do more monitoring, review and analysis in the next IEPR iteration in 2013. WSPA requests a much more thorough addressing of the risks inherent in the current and upcoming implementation of the following energy policies: the federal RFS2 program; the state's LCFS program; and the proposed placement of fuels under a cap in 2015, the CARB cap and trade program, and the CARB Clean Fuels Outlet regulation. We request that this information be included before the IEPR is adopted.

General references to potential challenges without proactive recommendations on how the state can deal with the challenges and avoid anticipated problems, is not at all helpful to the state and its citizens. As WSPA has stated many times, an analysis performed after a transportation sector crisis hits is not as useful as informed and thorough analysis beforehand.

If you have questions, please contact me or my staff, Gina Grey at 480-595-7121.

Sincerely,



c.c. President pro Tempore Darrell Steinberg
 Senate Republican Leader Bob Huff
 Speaker John Perez
 Assembly Republican Leader Connie Conway
 Nancy McFadden, Executive Secretary, Office of the Governor
 Cliff Rechshaffen, Senior Advisor, Office of the Governor
 Matt Rodriquez, Secretary, California Environmental Protection Agency
 CEC Commissioners
 R. Oglesby – Deputy Director, CEC
 P. Perez – Deputy Director, CEC
 S. Korosec – IEPR Lead, CEC
 Mary Nichols, Chairwoman, California Air Resources Board
 James Goldstene, Executive Officer, California Air Resources Board
 CARB Board Members

Attachment 1 – WSPA Comments on Draft IEPR – December 22, 2011



Western States Petroleum Association
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Catherine H. Reheis-Boyd
President

December 22, 2011

Docket #11-IEP-1A
California Energy Commission
1516 Ninth Street, MS-14
Sacramento, CA 95814
Via electronic mail to: docket@energy.state.ca.us

Re: Draft 2011 IEPR – Transportation Fuels Issues
Western States Petroleum Association Comments

The Western States Petroleum Association (WSPA) submits comments below on the draft 2011 IEPR document. WSPA is a non-profit trade association representing twenty-six companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas, and other energy supplies in California and five other western states.

WSPA was encouraged this year when Commission staff, as part of their biannual review of issues related to transportation fuels and vehicles as input to the IEPR, began to provide comprehensive and realistic data and information regarding historical as well as projected future transportation fuels and vehicles. The staff analysis comprised not only the normal transportation fuels/vehicles data, but also began to examine the potential issues and impacts related to the federal RFS2 program as well as the state's LCFS program.

The actual draft IEPR seems to incorporate only a few select pieces of the detailed information referenced. In addition, there is a long list of uncertainties and challenges presented relative to the transportation sector, but disappointingly, no substantive information that attempts to address these uncertainties or recommend specific strategies to overcome them.

As you know, Sections 25300 to 25323 of the California Public Resources Code mandate and govern the contents of the 2011 Integrated Energy Policy Report (IEPR).

1415 L Street, Suite 600, Sacramento, California 95814
(916) 498-7752 • Fax: (916) 444-5745 • Cell: (916) 835-0450
cathy@wspace.org • www.wspace.org

Section 25300(c) states that:

The Legislature further finds and declares that the state government requires at all times a complete and thorough understanding of the operation of energy markets, including electricity, natural gas, petroleum, and alternative energy sources, to enable it to respond to possible shortages, price shocks, oversupplies, or other disruptions.

And with specific reference to transportation fuels, Section 25304(a), (c), and (d) requires that the IEPR contain an:

(a) Assessment of trends in transportation fuels, technologies, and infrastructure supply and demand and the outlook for wholesale and retail prices for petroleum, petroleum products, and alternative transportation fuels under current market structures and expected market conditions.

and,

(c) Evaluation of the sufficiency of transportation fuel supplies, technologies, and infrastructure to meet projected transportation demand growth. Assessment of crude oil and other transportation fuel feedstock supplies; in-state, national, and worldwide production and refining capacity; product output storage availability; and transportation and distribution systems capacity and use.

After reviewing the draft IEPR, WSPA found it challenging to find anywhere in the document that the CEC had addressed the majority of these required transportation fuels related issues.

We also note in the preface to the IEPR it states, “*The Energy Commission prepares these assessments and associated policy recommendations every two years as part of the Integrated Energy Policy Report. Preparation of the Integrated Energy Policy Report involves close collaboration with federal, state, and local agencies and a wide variety of stakeholders in an extensive public process to identify critical energy issues and develop strategies to address those issues* [emphasis added].” WSPA notes the draft document appears to be particularly lacking in identifying transportation fuels related critical energy issues, and strategies to address those issues.

On the positive side, however, during several CEC Transportation Committee and staff workshops held throughout 2011, WSPA felt the Commission was seriously attempting to fulfill its role in assessing the transportation fuels arena and potential risks to feed stocks and fuels, as well as the lack of adequate infrastructure.

On November 14 there was a staff workshop on the “Role of alternative fuels in California’s transportation energy future.” At the workshop staff released a portion of the work and information – particularly relating to their analysis of the RFS2 program and the California Air Resources Board’s (ARB) LCFS program. Unfortunately, staff did not release the rest of the studies either at the workshop nor after the workshop, which is why WSPA submitted a letter to Chairman Weisenmiller

requesting all of the information be publicly released, as well as additional work be immediately performed.

It is interesting that a CEC representative provided oral testimony at the December 16th ARB LCFS hearing that in part stated, “Unfortunately, some opponents of the LCFS are selectively quoting staff work on one of several cases and studies without context or qualifications.” We assume this remark was at least partly directed at WSPA since prior to the hearing we had been utilizing the information from the November 14th CEC workshop to raise questions and concerns relative to the LCFS compliance schedule and the overall transportation fuels picture in the future.

First, as far as WSPA is concerned, the characterization is incorrect since WSPA does not oppose the LCFS, but more importantly we find this remark ironic, since it was the Commission that did not release all of the staff analyses on the cases and background information despite repeated requests, so it is obvious WSPA had to work with what the Commission had made available at the time.

While there are many details in the draft 2011 IEPR that we believe are overly optimistic or aggressive, we understand it’s probably too late in the process to introduce any substantive comments that will be integrated into the Report.

WSPA’s earlier comments, both written and oral, are not reflected in the draft IEPR even though we specifically asked that various data and conclusions be included in the IEPR and not just in the transportation fuels report since we recognize the IEPR is the document policymakers will tend to review.

However, the following are some broad comments and requests we ask the Commission to consider as it makes revisions to the draft IEPR:

- The Commission should conduct annual, versus biannual reviews of transportation fuels as input to the IEPR since this is a segment of the energy market that should be provided equal focus and analysis as the electricity sector – especially with the evolution currently occurring in the transportation sector. Many of the issues in the electricity sector are identical or similar to the transportation fuels sector. As electricity fuel use and electric vehicle penetration increase in the state, there will be cross-over issues at play with transportation fuels and an annual review would assist in addressing them.
- In aid of the ARB’s LCFS reviews, the Commission should provide to the ARB, at a minimum on a quarterly basis, information on transportation fuels including supply, demand and cost information for conventional fuels as well as projections; supply, demand and cost information for alternative/low carbon intensive fuels as well as projections; availability and projections of alternatively fueled vehicles and the match up or not with the fuels; as well as information relating to infrastructure or other challenges that are developing in the system.
- That statements in the IEPR summarizing general observations or dilemmas about possible future outcomes without a dose of realism based on history and informed insight, does not enhance the state’s energy reliability and security goals. There is a tendency for the IEPR to simply state additional work is needed to assess projections, etc. But no date certain is provided for when results of these additional studies will be forthcoming. This is not acceptable and

puts at risk the state's fuels system since reporting "after the fact" will not be timely enough. A clear understanding with appropriate recommendations for how to avoid issues/problems is required and expected from the Commission. We ask the Commission to include in the IEPR specific dates by which certain studies and results will be accomplished.

Several specific comments are included below. Many relate to our concerns with what we believe are overly optimistic projections cited in the draft 2011 IEPR and used elsewhere by the ARB (e.g. LCFS compliance scenarios) and that these present direct concerns for credible policymaking:

- The CEC's forecast of biofuel production volumes are aggressive. In its recent publication, the National Academies reports on some of the challenges associated with cellulosic biofuels that CEC should consider in its analysis.
- In the scenario where 50% of U.S. cellulosic biofuel production is used in California, there is a significant risk of shuffling, which will result in additional emissions. CEC should consider these risks in its analysis. Similar risks may also occur in scenarios when significant volumes of Brazilian ethanol and the back-haul of Midwestern corn ethanol are assumed.
- Use of the consumer choice model to predict electric vehicle volumes (fuel cell, battery and plug in) is not the best approach to accurately forecast vehicle deployments or consumer acceptance. This model is based on "stated preference" surveys, which often paint the most optimistic picture of what the public is willing to accept because the participant often says what they think the interviewer wants to hear. CEC should consider other survey approaches.
- In both the introductory portion and the more detailed portion of the document on transportation fuels there is no recognition that there are likely to be significant infrastructure needs and costs. For example, on page 14 there is a comment about California's infrastructure being adequate for ethanol – with no recognition that ethanol related infrastructure may be needed in other areas of the country or outside the country in order to accommodate volumes of ethanol for either RFS2 and/or LCFS compliance.
- Page 138, second paragraph under "Federal Regulation – Renewable Fuels Standard (RFS2)" – States that retail fueling infrastructure may require the installation of between 1,300 and 13,000 E85 dispensers by 2022. WSPA questions why there is such a big range in the estimates and recommends these numbers be closely reviewed.
- Page 139, second paragraph – CEC states ARB anticipates that E85 may play a significant role in LCFS pathways. WSPA questions the validity of the paragraph based on the fact there is no acknowledgement of the difficulty in blending E85 with CARBOB.
- Page 140, second paragraph under "State Regulation – Low Carbon Fuel Standard" – In the middle of the paragraph it states "However, this assumption is dependent on ARB completing its assessment of what portion of existing transit electricity use may be eligible for credits and at what levels." WSPA questions what "assessment" this refers to since we are unaware of such an assessment. In addition, we request a response on whether this

assessment will account for the fact that credits from programs such as AB118 should not be issued due to the public funding component.

- Page 144, first paragraph – “Certain biofuels...modest refuelling infrastructure investment and little to no modifications to motor vehicles to enable greater use.” We question this statement for a number of the fuels as stated in the first bullet above, but especially for sugarcane-based ethanol that may be coming in from Brazil, for example. Also, E85 needs to be captured in this paragraph.
- End of the above-referenced paragraph – “It should be noted that the Clean Fuels Outlet program indicates the program is feasible for hydrogen stations at prices for hydrogen ranging from approximately two to three times that of gasoline.” WSPA questions this statement and indicates this may depend, for example, on per station fuel demand amongst several other market factors.
- Page 145, first paragraph at top of the page – “Alternatively, ethanol from Brazil could be imported through the Houston ship channel and transferred via rail cars before delivery to California. Kinder Morgan has examined this business development scenario and could complete the necessary modifications in less than six months upon gaining sufficient client commitments.” WSPA notes that based on the LCFS compliance schedule, sugarcane based ethanol will only help with carbon intensity reduction for a limited time period before a transition to cellulosic and other low carbon fuels is necessary – which could strand investments. This needs to be discussed and accounted for in the economic analysis.
- In addition, for possible insertion in Chapter 9, “Petroleum Supply and Infrastructure” subsection, before the last paragraph on page 148: Only through continually investing to modernize their equipment and processes can refineries in California comply with rigorous California regulations such as AB 32 GHG reduction targets, safely process available crude oil from around the world, and ensure a reliable supply of California manufactured transportation fuels. However, state and local permitting requirements, such as those required for Chevron’s Richmond refinery, are delaying these upgrade projects for many years.

WSPA December 8, 2011 Letter to Chairman Weisenmiller

WSPA has excerpted several paragraphs from our recent letter to Chairman Weisenmiller below, since they directly relate to the draft IEPR and it’s incomplete nature. We would like to reiterate the following requests as part of the IEPR record:

“Based on the recently released draft IEPR document, it is evident the IEPR contains an inadequate discussion of transportation fuels, a fraction of the information shared during the CEC transportation-related meetings and workshops this year, and completely avoids addressing the potential impacts of the RFS2 and LCFS programs on the state’s transportation fuels supplies as well as the cost of those supplies.

Given that the CARB LCFS program was intended to create substantial changes in the California transportation fuel market, it is clear that a comprehensive examination of that regulation is mandatory – particularly as we enter the second year of the compliance schedule. Based on preliminary work presented by staff on September 9th and November 14th, it appears the CEC staff is attempting to perform such an evaluation, however only the preliminary data has been released and additional work is needed.

WSPA requests the Commission complete its evaluation of the RFS2 and LCFS programs as soon as possible, and asks the Commission to make the past staff evaluations as well as the upcoming evaluation we have requested, transparent to the public by releasing all data, data sources, assumptions, documents, models, spreadsheets, and any other materials to the public. To be clear, this request covers not only materials related to a “final” CEC LCFS evaluation that has not yet been completed, but also to all preliminary CEC evaluations relevant to the transportation sector during the past year.

WSPA also requests the Commission conduct an analysis of the economic and energy supply impacts of a combination of CARB regulations including the AB32 cap & trade program, fuels under the cap, the LCFS program, the Advanced Clean Cars program, and revisions to the Clean Fuel Outlet regulation. It is important to assess the cumulative impact of this series of CARB regulations rather than analyzing them in isolation.”

WSPA appreciates the opportunity to provide comments on the draft IEPR, but believes the Commission would be well served to hold a public workshop to discuss the comments received and the Commission’s response, in advance of the CEC’s business meeting where the IEPR will be adopted.

In particular, we ask again that the Commission conduct ongoing reviews of the status of transportation fuels – the supply, the cost, and the challenges such as infrastructure. This information should be supplied and be publicly available before submittal to ARB as part of their annual LCFS review. Even if, as proponents of low carbon/alternative fuels frequently predict, the supply and cost of these kinds of fuels will be adequate, reliable and affordable, it is clearly prudent to investigate these metrics on an annual and ongoing basis for confirmation.

Sincerely,



c.c. President pro Tempore Darrell Steinberg
Senate Republican Leader Bob Dutton
Speaker John Perez
Assembly Republican Leader Connie Conway
Nancy McFadden, Executive Secretary, Office of the Governor
Cliff Rechshaffen, Senior Advisor, Office of the Governor

1415 L Street, Suite 600, Sacramento, California 95814
(916) 498-7752 • Fax: (916) 444-5745 • Cell: (916) 835-0450
cathy@wspace.org • www.wspace.org

Matt Rodriquez, Secretary, California Environmental Protection Agency
Anthony Eggert, Deputy Secretary for Energy Policy, California Environmental Protection Agency
CEC Commissioners
Rob Oglesby, CEC Executive Director
Pat Perez, CEC Deputy Director
Lynette Green, CEC IEPR Project Manager
CARB Board members
Mary Nichols, CARB Chairwoman
James Goldstene, CARB Executive Officer